



# 2013 EDUCATION SUMMIT

NOVEMBER 18-22

*Ensuring Compliance With The Ginnie Mae Program*



## ***Topics of Discussion***

- Ginnie Mae's Monitoring Division
- Baseline Monitoring
- Operational Review and Desktop Audit Program
- Issuer Operational Performance Profile (IOPP)

## ***Ginnie Mae's Monitoring Division***

***Goal:***

***To ensure all Ginnie Mae MBS Issuers and their respective stakeholders have the ability and capacity to fulfill their obligations to pay investors.***

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# Baseline Monitoring

*ENSURING COMPLIANCE WITH THE GINNIE MAE PROGRAM*

**Goal:**

*To utilize a set of baseline monitoring key performance indicators to assess Ginnie Mae MBS Issuers ability to fulfill their obligations to pay investors.*

*Key Performance Indicators:*

- *Financial Statement Review*
- *Delinquency Thresholds*
- *Compliance Review*
- *Loan Insurance Matching*

## ***Financial Statement Review***

- Annual requirement to submit financial statements within 90 days after fiscal year end
- Annual requirement to submit fidelity bond and E&O insurance

Document(s)	Due Date
Annual Audited Financial Statements	Within 90 days of the Issuer's fiscal year-end
Annual Fidelity Bond Insurance Renewal	Renewal certificates and endorsements or other notifications of policy renewals must be received by Ginnie Mae's Financial Reports Review Agent no later than 30 days prior to policy expiration.
Annual Errors and Omissions Insurance Renewal	Renewal certificates and endorsements or other notifications of policy renewals must be received by Ginnie Mae's Financial Reports Review Agent no later than 30 days prior to policy expiration.

## ***Financial Statement Submission Should Include:***

- Audited Financial Statements
  - Income Statement
  - Balance Sheet
  - Statement of Cash Flows
  - Financial Statement Footnotes
  - Supplemental Schedules
- Auditor's Report on the Financial Statements
- Ginnie Mae Calculation of :
  - Adjusted Net Worth
  - Insurance Coverage
  - Institution-wide Capital Requirements
  - Liquidity Requirements
- Report on Internal Control
- Report on Compliance with Specific Requirements Applicable to Major/Non-Major HUD Programs

## *Why is this important?*

- Ginnie Mae MBS Guide Requirement / Regulatory Requirement
- Information is utilized in assessing an Issuers ability to fulfill their obligations to investors
- Impact to obtaining commitment authority



## ***Key Takeaways***

- Timely and accurate submission is integral to ensuring compliance with Ginnie Mae Guide requirements
- Timely response to Financial Statements Review contractor or Ginnie Mae to cure deficiencies
- Ability to submit financial statements electronically per APM 12-09; electronic submission instructions- Appendix VI-20 in the Ginnie Mae MBS Guide
- Any indication that you are unable to meet the 90 day year-end submission deadline - contact your Ginnie Mae Account Executive immediately

## ***Delinquency Thresholds***

The Ginnie Mae MBS Guide Chapter 18-3 (Acceptable Delinquency Rates) outlines delinquency thresholds based on monthly data submitted by the Issuer

- **For Multifamily (MF) pools** the threshold level is 7.5% of the aggregate remaining principal balance of the loans that are two or more months delinquent.

## *Single Family (SF) Program Delinquency Thresholds*

- **Three** indicators of delinquencies are used:
  - **DQ3+ Ratio:** Number of loans delinquent in the Issuer's Ginnie Mae portfolio that are either in the foreclosure process or are three months delinquent divided by total number of loans in portfolio
  - **DQ2+ Ratio:** Number of loans delinquent in the Issuer's Ginnie Mae portfolio that are either in the foreclosure process or are two months delinquent divided by total number of loans in portfolio
  - **DQP Ratio:** Accumulated amount of delinquent P&I payments divided by total monthly fixed installment control due the Issuer.

## *Single Family (SF) Program Delinquency Thresholds*

- For purposes of establishing threshold levels for delinquency, Issuers are grouped into one of two categories: those with more than 1,000 active loans and those with 1,000 or fewer active loans.
- A higher ratio in any one category may be sufficient cause for Ginnie Mae to impose sanctions.

INDICATORS	CATEGORIES	
	Issuers with more than 1000 loans	Issuers with 1000 loans or fewer
DQ3+ Ratio	5%	9%
DQ2+ Ratio	7.50%	10%
DQP Ratio	60%	90%

## *Why is this important?*

- Delinquency information is utilized to assess an Issuers ability to fulfill their obligations to investors.
- Impact to obtaining commitment authority
- Failure to manage portfolio within delinquency thresholds could result in being placed on a quarterly monitoring plan

## *Key Takeaways*

- An event of delinquency is determined by the terms established by the agency that insures or guarantees the mortgage not by Ginnie Mae
- Appropriate loss mitigation is taking place timely- impacts to claims submitted including curtailments
- Ensuring adequate calculation of funds to cover delinquent loans. Issuer remains responsible for advance

## ***Compliance Review***

- In 2012, significant update to the guidance in performing compliance reviews including:
  - Increased sample sizes
  - Deletion of outdated findings / Addition of new findings
  - Reviewing protocols on a quarterly basis
- Risk-based methodology utilized to establish itinerary
- Each Issuer is reviewed at a minimum once every three years
- Three phases: Advance, On-Site, and Follow Up

## *Compliance Review Findings Overview*

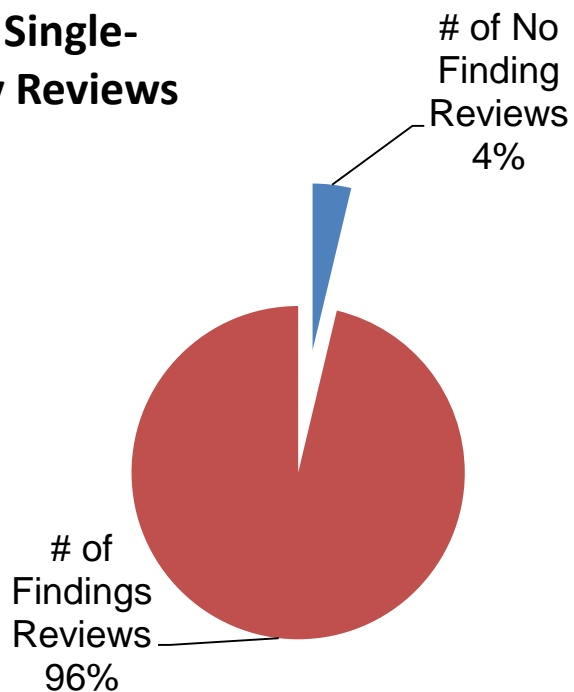
	# of Reviews	# of Findings Issued	Avg. # of Findings	Median # of Findings
<b>All Issuers Reviews</b>	<b>176</b>	<b>1,024</b>	<b>5.8</b>	<b>4</b>
Forward Issuers (SF+MF)	167	981	5.9	4
Single Family	134	878	6.6	5
Multi Family	33	135	4.1	2
HMBS	9	43	4.8	5

Numbers based off of compliance reviews performed from the period beginning August 1, 2012 to October 23, 2013

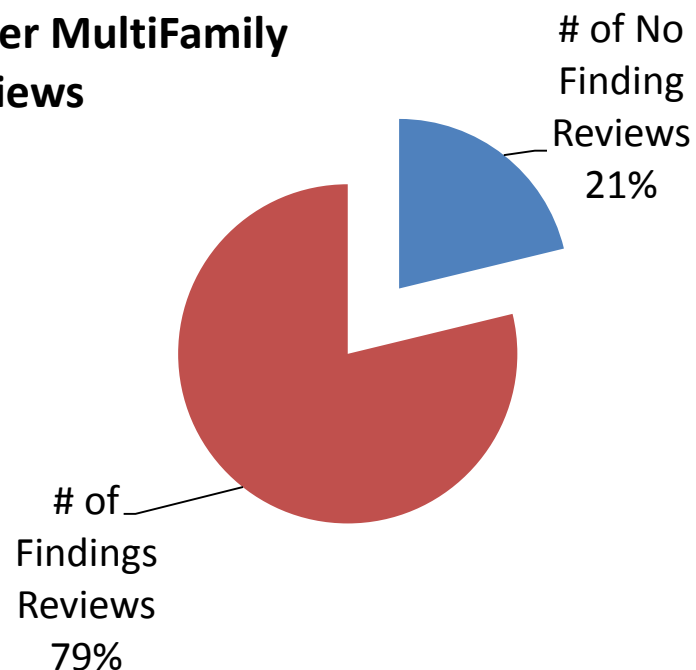


*Percentage of Reviews with  
No Findings vs. Reviews with Findings*

**Issuer Single-  
Family Reviews**



**Issuer MultiFamily  
Reviews**



## *Why is this important?*

- Testing is performed on-site
- Provide the opportunity for Ginnie Mae to assist Issuers in achieving a “best in class” operation
- Allows Issuers to supply input on questions/concerns around Ginnie Mae MBS Guide requirements

## ***Key Takeaways***

- Ginnie Mae **highly** recommends if you are utilizing a sub-servicer and instruct the Compliance Review Agent to perform the on-site at the sub-servicer's location, to have a representative from your organization present for the review
- Expectation to provide requested materials timely and completely- if not, can result in findings issued- **Compliance Review Agent is on-site strictly to test requested materials**
- Questions or concerns regarding a scheduled on-site compliance review contact your Account Executive
- Training sessions provided this week Wednesday, Thursday, and Friday on the entire compliance review process

## ***Loan Insurance Matching***

- Per statute, all loans in Ginnie Mae pools **must be insured/guaranteed** by FHA, VA, USDA-RD or HUD's Office of Public and Indian Housing (PIH)
- On a monthly basis, Ginnie Mae compares Issuer-submitted loan level data against agency endorsement data received from FHA, VA, and USDA-RD
- Loan insurance matching methodology
  - Have factored in timing delays
  - Included in the comparison: case number, maturity date, interest rate, and 3-digit zip code

## *Why is this important?*

- For every loan, ensure the enforceability of the insurance or guarantee issued by the insuring agencies
- If the loan does not have the appropriate insurance/guarantee (uninsurable) it is deemed defective and not permitted to be in Ginnie Mae securities; Could result in having to buy-out the loan
- Ability to assess if the same property is being utilized as collateral on other loans in Ginnie Mae's securities (aka double loans)

## *Key Takeaways*

- Make sure **all** loans pooled in Ginnie Mae securities are insured/guaranteed
- If you receive an e-notification, work with your Account Executive to resolve the loans in question
- Uninsured loans result in the inability to file claims- financial impact to an Issuer

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# Operational Review and Desktop Audit Program

***ENSURING COMPLIANCE WITH THE GINNIE MAE PROGRAM***

## Goal

*Review and understand the business processes of Ginnie Mae Issuers, their document custodians and sub-servicers and identify operational risk issues and gaps that can be addressed before impacting the performance of the collateral underlying the Ginnie Mae Mortgage Backed Security Pools and ultimately the business operations.*



## Reasons for On-site Review or Desktop Audit

- Seeking approval to do business with Ginnie Mae.
- Transfer of Servicing event that could significantly impact the transferee's operations.
- Change in business control resulting from a merger or acquisition.
- Business model has changed, e.g., bringing servicing in-house.
- Non-compliance to Ginnie Mae guideline and requirements.
- Regulatory non-compliance.
- Alleged mortgage fraud, corporate malfeasance or criminal gross misconduct.
- Indicators of Performance are trending downwards or in the negative range.
- Exhibited signs of institutional financial distress.
- Magnitude of risk could have a widespread significant impact to the MBS market and mortgage finance industry.

## Review Process

### Planning –

- discuss potential entity to be reviewed.
- determine whether a desktop audit or an operational review is warranted.
- define scope and parameters of the operational review.

### Preparation –

- notify prospective entity of intent to perform an operational review or desktop audit.
- provide entity a list of information/documentation needed in advance of review and travel/meeting logistics, if needed.

## Review Process

### Review (Operational) –

- hold an entrance meeting with senior management.
- conduct walk-through of business processes with line management and staff.
- debrief initial findings and observations.

### Review (Desktop Audit) –

- ensure all necessary information/documentation has been received.
- review documentation.
- debrief initial findings and observations.

### Follow-up –

- summarize findings.
- formulate an Opinion substantiated with observations.
- establish course of action and timetables with the Issuer if critical non-compliance items are noted.

## Scope of Review

- Modular – can be customized to a specific entity, industry segment or business process, i.e., issuer, document custodian, sub-servicer, new entity, existing entity, loan administration, note custody, default management/loss mitigation.
- Operational – systematic evaluation of process effectiveness and efficiency as opposed to compliance and adherence to requirements, conventions and principles.
- Evaluative– given the subjective nature in assessing effectiveness and efficiency, Opinions, Observations and Recommendations are provided as opposed to assigning a Compliant or Not Compliant rating.

NOTE: A desktop audit can be a precursor to an on-site operational review.

## Dimensions of the Review

- Corporate Structure
- Business Content
- Human Resources
- Policies and Procedures
- Business Continuity Planning
- Technology
- Vendor Management
- Audit (Internal and External)
- Management Oversight
- Communications

## Focus

### Corporate Structure and Governance –

- understand the corporate oversight process, lines of authority, management competency, risk management and controls environment, and internal/external audits.
- review and assess the policies and processes of financial management to ensure lender has the capacity to support loss sharing obligations and other credit commitments.
- determine if levels of insurance (directors & officers, errors& omission, fidelity bond) are maintained throughout the year.

## Focus

### Loan Administration –

- review and assess the reporting of loan data, remitting of the borrower's principal & interest payments, reconciliation of custodial accounts; escrow management; investor operations.
- examine specifically the composition/experience of management and staff, training and development, quality & process control environment, policies & procedures, and use of technology.

## Focus

Default Management/Loss Mitigation –

- review and assess the various processes surrounding early collections, loss mitigation, foreclosure/ REO, customer relations and claims process.
- examine specifically the composition/experience of management and staff, training and development, quality & process control environment, policies & procedures, and use of technology.



## Focus

### Document Custody –

- solicit the Issuer's operational assessment of their current document custodian(s) surrounding the safeguarding of all loan documents.
- review and assess the document custodian's processes, policies & procedures, and controls surrounding the safekeeping of legal documents evidencing the ownership of the mortgage.
- validate the data/document integrity regarding the verification/certification of the mortgage note information, timely release of documents, proper notification of servicing transfers, proper endorsements, the execution and maintenance of intervening assignments, and lost note affidavits.
- examine specifically the composition/experience of management and staff, training and development, quality & process control environment, policies & procedures, and use of technology.

## Final Notes

The on-site Operational Review and Desktop Audit differ from a Compliance Review in that the latter focuses solely on how an Issuer conforms to the controlling guidance issued by Ginnie Mae or other government agencies.

The Desktop Audit differs from an on-site Operational Review in that the scope is limited to the information provided by the Issuer about their servicing infrastructure and how it fits into their corporate business model and strategy.

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# Issuer Operational Performance Profile

***ENSURING COMPLIANCE WITH THE GINNIE MAE PROGRAM***

## ***Goals***

- Enable our Issuer partners to better understand Ginnie Mae's expectations and what is important to Ginnie Mae.
- Provide Issuers with a framework and methodology from which they can gauge their effectiveness against a pre-determined set of Ginnie Mae expectations (metrics) as well as how they rank against their peers.

## ***Similar Industry Initiatives***

- HUD's National Servicing center Tier Ranking System (TRS) II
- Fannie Mae's STAR (Servicer Total Achievement & Rewards) Program
- Freddie Mac's Servicing Success Program

## ***Monthly Process***

- The performance for each Ginnie Mae Issuer will be scored based on a series of metrics.
- Each issuer will be rated against a pre-defined peer group by applying a weighting algorithms and in some cases, adjusting for certain control factors.
- The end result will be two scores: one for operational management and one for delinquency management.

## ***Tool Sections***

- **Operational Metrics:** Focuses on compliance with reporting requirements, compliance with Ginnie Mae program standards and policies and monitoring issues with the pooling and issuance process.
- **Default Management Metrics:** Focuses on an Issuer's effectiveness at managing loan performance through delinquency roll rates, workout performance and timeline managements.

## *Operational Metrics – Single Family Reporting*

- **Failure to Report:** Failure to report RPB or 10D through GinnieNET, or to report Monthly Investor Reporting through RFS.
- **RPB Failed Edits Processes:** Percentage of pools that fail edits upon initial RPB submission.
- **Failure to Submit RPB Corrections by 4th BD:** Percentage of pools with RPB corrections after the fourth business day.
- **RFS Exceptions:** The percentage of loans and pools with exceptions from RFS reporting.



## ***Operational Metrics – Single Family Certification & Compliance***

- **Percentage of Pools not Certified:** The percentage of pools not certified after 12 months.
- **Compliance Review Metric:** Based on total (50%), high (30%), and repeat (20%) findings.
- **Insurance Matching:** The percentage of loans that are found in agency endorsement/guarantee data within 7 to 12 months of pool issuance.

## *Operational Metrics – Single Family Pooling & Issuance*

- **Commitment Authority Shortage/Surplus:** Commitment Authority outstanding compared to 3-month usage rate.
- **Number of DKs:** The number of Don't Knows over a 12 month period.
- **Early Pool Terminations:** The number of Early Pool Terminations over a 12 month period.
- **Rejections of Initial Certification:** The number of pools rejected for by the Document Custodial for initial certification over a 12 month period.

## *Operational Metrics – Multifamily Reporting*

- **Failure to Report:** Failure to report RPB or 10D through GinnieNET, or to report Monthly Investor Reporting through RFS.
- **RPB Failed Edits Processes:** Percentage of pools that fail edits upon initial RPB submission.
- **Failure to Submit RPB Corrections by 4th BD:** Percentage of pools with RPB corrections after the fourth business day.

## ***Operational Metrics – Multifamily Reporting (cont.)***

- **Disclosure Edits:** The number of database corrections over a 12 month period.
- **New Pool Errors:** The number of errors at time of pool submission over a 12 month period.
- **RFS Exceptions:** The percentage of loans and pools with exceptions from RFS reporting.

## ***Operational Metrics – Multifamily Compliance***

- **Compliance Review Metric:** Based on total (50%), high (30%), and repeat (20%) findings

## *Operational Metrics – Multifamily Pooling & Issuance*

- **Insufficient Commitment Authority:** Number of Pooling Errors Due to Insufficient Commitment Authority over a 12 Month period.
- **Number of DKs:** The number of Don't Knows over a 12 month period.
- **Rejections of Final Certification:** The number of pools rejected for by the Document Custodial for final certification over a 12 month period.

## ***Default Management Metrics – Single Family***

- **60 to 90+ Day Roll Rate:** The percentage of loans that move from DQ60 to DQ90+ within a given period based on a rolling 3 month average.
- **DQP Ratio:** Amount of cumulative delinquent P&I divided by monthly P&I for all pooled loans.
- **Early Payment Default (EPD):** The percentage of loans that go DQ60+ in the first 6 months.
- **No Action on Delinquent Loan:** The percentage of loans where no action is taken within 6 months of the first missed payment.

## ***Default Management Metrics – Single Family (cont.)***

- **DQTime:** The average number of months loans remain delinquent from the point of last paid installment.
- **Percentage of Loans in Foreclosure:** The percentage of loans with a foreclosure status.
- **Percentage of Claim Amounts Curtailed:** The percentage of claim amounts that have been curtailed in the past 6 months.
- **Workout Effectiveness:** The percentage of loan modifications current after 6 months.



## ***Working Assumptions***

- Issuers were involved in defining and validating metrics.
- Issuers should be able to fully influence their performance on each metric.
- The weighting for each metric is based on its importance to Ginnie Mae.
- Over time, based on overall Issuer performance, the number, type and weights of the metrics can change; new ones may be added and current ones deleted.
- Ginnie Mae may request Issuers to develop remediation plans to address those areas that have been deemed needing improvement.

## ***Working Assumptions (cont.)***

- The Issuer Operational Performance Profile will be in a pilot mode for an initial period of time to allow Issuers to become familiar with the feedback tool and provides Ginnie Mae the data to establish minimum levels of Issuer performance and perform trending analyses. Ginnie Mae will provide Issuers with a two month advance notice before moving out of its pilot mode.
- The performance data and ratings in the Issuer Operational Performance Profile will be treated confidentially and communicated individually to each Issuer. It will not be shared with other Issuers.

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### ISSUER OPERATIONAL PERFORMANCE PROFILE

Summary	<b>Operational</b>	Default	Search	Corporate Profile	Issuances Profile	Portfolio Profile	Metrics Mgmt Report	Metrics Trend Mgmt Report	Custom Settings
XYZ Mortgage									

Program Type ☒ Single Family ☐ Multifamily ☐ HMBS

#### Failure to Report

	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13
Tier	2	3	2	4	4	3	2	1	1	3	4	1
Platinum Standard	21	64	70	6	78	62	76	76	49	45	71	59
Peer Group	71	62	4	32	62	22	60	73	48	77	15	37
XYZ Mortgage	90	48	42	56	39	84	63	88	100	60	65	97

#### RPB Failed Edits

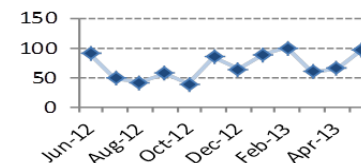
Tier	1	2	4	1	1	1	4	2	2	2	3	1
Platinum Standard	39	18	89	26	32	84	18	57	3	24	82	36
Peer Group	64	17	36	39	69	42	3	97	35	64	44	22
XYZ Mortgage	47	48	44	45	27	21	92	25	11	88	77	10

#### Failure to Submit RPB Corrections by 4th BD

Tier	3	3	1	2	4	1	3	3	2	3	1	3
Platinum Standard	18	98	93	37	9	89	8	17	83	96	60	99
Peer Group	43	58	83	90	25	3	1	36	24	14	10	75
XYZ Mortgage	81	91	75	91	95	52	9	15	99	51	92	88

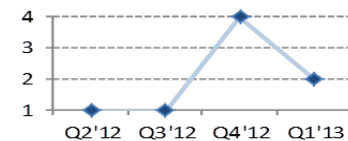
Monthly Quarterly

☒ Metric ☐ Tier



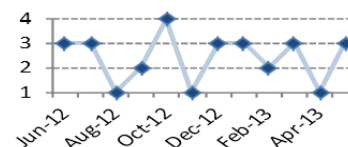
Monthly Quarterly

☐ Metric ☒ Tier



Monthly Quarterly

☐ Metric ☒ Tier



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### ISSUER OPERATIONAL PERFORMANCE PROFILE

Summary

Operational

Default

Search

Corporate Profile

Issuances Profile

Portfolio Profile

Metrics Mgmt Report

Metrics Trend Mgmt Report

Custom Settings

XYZ Mortgage

Program Type ☒ Single Family ☐ Multifamily ☐ HMBS

60 to 90+ Day Roll Date

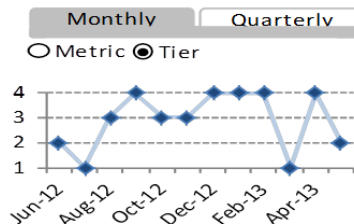
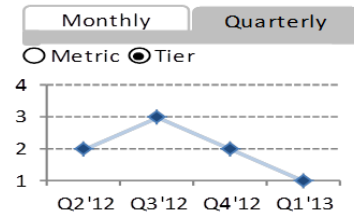
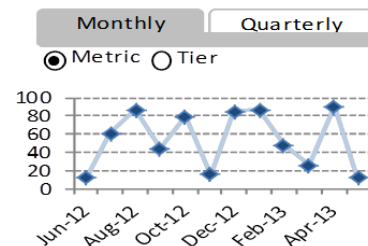
	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13
Tier	1	2	1	2	4	4	2	1	3	4	4	1
Platinum Standard	13	56	71	70	35	64	18	21	68	92	74	25
Controlled Peer Group	1	68	61	11	67	7	38	64	8	50	29	78
XYZ Mortgage	13	61	87	44	79	16	85	87	48	26	90	12

DQP Ratio

Tier	2	2	1	3	1	1	2	1	1	1	1	2
Platinum Standard	59	60	46	65	26	52	100	49	44	15	9	47
Controlled Peer Group	89	93	68	13	62	68	57	94	67	86	16	68
XYZ Mortgage	28	74	36	84	15	5	36	98	28	92	95	22

Early Payment Default (EPD)

Tier	2	1	3	4	3	3	4	4	4	1	4	2
Platinum Standard	90	54	65	12	67	46	42	16	10	24	2	66
Controlled Peer Group	37	19	90	23	29	96	95	38	91	51	17	4
XYZ Mortgage	80	60	86	3	10	53	75	32	9	98	40	22



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# Questions?